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May 6, 2011

The Honorable Wally Herger
The Honorable Charles Boustany, Jr., MD
The Honorable Dave Reichert
Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

Dear Chairman Herger, Chairman Boustany, and Representative Reichert:

Thank you for your letter of April 21, 2011 following up on issues that Lee Hammond and I discussed at the hearing on April 1, 2011. We are pleased to have the opportunity to provide this additional information, clarify some of our statements, and answer other questions you have raised. We have reproduced your questions below for your convenience.

- 1. Royalty amounts that AARP receives, on an annual basis, for the Medicare Advantage (MA) and Medicare Part D prescription drug plans under AARP's current contract with United, which runs through 2014. Please list the royalty amount separately for each insurance product type.**

At the hearing, I said that I did not have the breakdown of payments to AARP for United's individual health insurance products that carry the AARP name. I agreed to provide the total in writing. The total for 2009 was \$425,070,178 and for 2010 it was \$441,287,102. As previously explained in our responses to the Committee of November 2, 2009 and December 18, 2009, the amount by product is proprietary information. In order to provide the best prices and value for those we serve, we cannot publicly disclose the details of arrangements we have agreed to with different providers because that affects the ability to negotiate on behalf of our members and others who choose products that carry the AARP name as best meeting their specific needs. Nonetheless, AARP is prepared to disclose the information to the Committee if the Committee guarantees appropriate protections that are necessary for us to be able to fulfill our mission.

- 2. The amount of money AARP earned on the interest from holding insurance premiums for AARP-branded insurance products and the amount of taxes paid, if any, on the interest earned, in each of the last ten years. Also provide the length of time the premium money is held by AARP, in accordance with the contracts, for each AARP-branded insurance product.**

At the hearing, I provided rounded answers to this question for the two years for which I have been at AARP. As requested, here are the detailed figures for income earned for the last ten years:

2001	33,133,399
2002	26,707,932
2003	24,432,340
2004	22,931,527
2005	19,838,677

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2006	32,319,596
2007	40,422,345
2008	(69, 262,988)
2009	89,985,195
2010	56,668,525

The income earned on premiums held by the Trust is treated as excludible under section 512(b) of the Internal Revenue Code and therefore is not subject to tax.

Regarding the length of time the premium money is held by AARP, there is no one answer to this question because it depends on when the insureds send in their premiums. Some pre-pay for an entire year (for which they receive a discount), others pay on time, and others pay late. Payments are made from the Trust to the insurers at set times. Thus, the amount of time that the Trust has any particular premium in its account will vary widely. Most premiums are paid by the insureds at some point in the month before they are due to the insurer.

3. Clarification of whether AARP, Inc. or any of its affiliated entities employ or contract with actuaries. If there are actuaries employed by or under contract, please detail how many, in what organization they are employed, and their primary job responsibilities.

AARP does not have practicing actuaries on staff. AARP and its subsidiaries retain Towers Watson and Beecher Carlson to perform actuarial consulting with regard to our employee pension plan, retiree medical plan, and other employee benefit and liability insurance programs. AARP Services, Inc., our taxable subsidiary, retains two consulting firms that include actuarial resources, Towers Watson and Mercer, to assist in its quality control activities regarding AARP-branded products. Towers Watson provides consulting services to assist AARP Services in the monitoring of the performance of the AARP-branded products in the areas of homeowners and vehicle insurance. Mercer provides similar services with regard to AARP-branded health products and services.

4. Information on every meeting with individuals representing the White House and the Obama Administration that included an AARP representative, whether employed by AARP or contracting with AARP, the dates of those meetings, and the names of White House and Administration representatives at such meetings from 2009 through 2011 where health care was discussed.

Although your letter indicates otherwise, I do not believe that I agreed to provide this information. Nonetheless, attached are excerpts from the White House visitor logs recently provided by the White House in response to a similar request from the House Energy and Commerce Committee that show AARP attendees at meetings related to health care reform.

5. A detailed description and funding amount of the member services provided to AARP members today that were not provided in 2002.

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Again, although your letter indicates otherwise, I do not believe that I agreed to provide this information. Rather, I requested clarification on the question, which you have now provided in your letter, and we appreciate the opportunity to follow up accordingly.

We note that our mission is to serve all Americans age 50+, not just our members. We do that through a broad range of activities, including information, education, advocacy, benefits and services. That said, we are happy to note a number of new programs for AARP members introduced since 2002. These include but are not limited to:

- Health and wellness support, such as our online “doughnut hole” calculator, which has been used by more than 200,000 Medicare beneficiaries to plan for the gap in prescription drug coverage;
- Financial security tools, such as our online retirement savings calculator;
- Career fairs for older workers and online job search tools;
- Our volunteer engagement campaign, *Create the Good*, which connects older Americans to over 250,000 volunteer opportunities in their communities;
- Fraud prevention activities, including education and community document-shredding events;
- Online communities for members and all 50+;
- Our newly-redesigned website, which serves as a portal to all of our offerings, including advice from experts as well as content from our three flagship publications, and now includes a companion Spanish language website;
- Our “Complete Streets” initiative that uses volunteers to assess mobility options for pedestrians and cyclists;
- Two TV shows, *My Generation* and *Inside E Street*, which air on PBS stations;
- Our support of the Drive to End Hunger, discussed further in our response to question 7;
- Our efforts aimed at capturing the nation’s historic legacy, including our collaborations with the Library of Congress, *Voices of Civil Rights* and the *Veterans History Project*; and
- A convenient online-version of AARP’s popular Driver Safety Program.

Specific budgetary information is not tracked for most of these new programs – for example, web tools are included in the overall website budget. More information by spending category is provided in our response to question 14.

6. When asked, "What percentage of AARP's Medigap premiums will AARP keep in each year from 2011 until the current contract expires in 2017?" you responded that, "I can't answer the future. We have not talked about that."

Given that AARP's Medigap contract with UnitedHealth Group runs through 2017, the royalty payment (defined as percentage of Medigap premiums retained by AARP) that AARP receives in future years covered under the contract should be readily available. Please provide us with information detailing the percentage of the Medigap premium that AARP will receive in 2011 through 2017.

As we have explained in our submissions of November 2, 2009 and December 18, 2009, the specific royalty percentages are proprietary. In order to provide the best prices and value for those we serve, we cannot publicly disclose the details of arrangements we have agreed to with different providers because that affects the ability to negotiate on behalf of our members and others who choose products that carry the AARP name as best meeting their specific needs. Nonetheless, AARP is prepared to disclose the information to the Committee if the Committee guarantees appropriate protections that are necessary for us to be able to fulfill our mission.

7. When you were asked if AARP makes money off of its NASCAR sponsorship you replied, "We don't make any money on this."

However, according to NASCAR's announcement of the AARP deal: "Sales will be managed by Kyle Lewis, AARP vice president of business development, and Andrew Campagnone, senior vice president of motorsports for Wunderman, who helped put together the deal...[AARP] expects to have no problem recouping its investment in the car or collecting donations for its effort to end hunger. It plans to set a benchmark early next year for how much of every dollar it raises is directed to fighting hunger."

Given this statement, please clarify whether or not AARP, Inc. or any of its affiliates, will receive revenue from selling advertisement space on the car. If so, how much has AARP received thus far? How much will AARP receive over the next three years of the sponsorship deal, in accordance with advertising contracts with other entities that have already been signed? Additionally, how much of every dollar of advertising revenue will be directed to this hunger initiative that are not related to overhead costs?

The goal of Drive to End Hunger is to raise funds, resources and awareness to end hunger among older Americans. At the time of the sponsorship announcement, AARP anticipated being able to recoup—and ideally to exceed—its initial investment in the Hendrick Motorsports sponsorship by selling space on the Drive to End Hunger car. In addition to raising charitable contributions for the hunger programs of the AARP Foundation, it was envisioned that any excess advertising revenue that AARP received beyond its original investment would go to the AARP Foundation to fund its anti-hunger work. At the time of the hearing six months later, however, it had become clear that recouping the initial investment through the sale of advertising on the Drive to End Hunger car or related items (uniforms, transport trucks, etc.) is unlikely this year, in part because of our decision to ensure high visibility for the hunger awareness campaign on the car throughout the NASCAR

season.

AARP and the AARP Foundation embarked on this effort because every day, more than 6 million Americans over age 60 face the threat of hunger. Drive to End Hunger is our multi-year commitment to solving this problem. Core components of Drive to End Hunger include building awareness of the issue of senior hunger; collaborating with national partners who share a goal of feeding seniors by working to enhance and supplement distribution networks – like food banks and food pantries; generating resources for the cause through individual and corporate fundraising campaigns; local SNAP (Supplemental Nutrition Assistance Program) outreach and enrollment assistance; and developing solutions to senior hunger through grant-making.

Already, Drive to End Hunger has brought numerous resources to the AARP Foundation. The generous NASCAR fan base has contributed to food drives organized by AARP and the AARP Foundation that benefit local food banks and also has donated directly to AARP Foundation hunger programs. Additionally, the owner of a number of race tracks has announced it will donate all extra food items from race weekends to the local food banks that serve the race track areas. These contributions together have enabled us to provide for over 360,000 meals after just five of our 22 races this year.

To date, Drive to End Hunger has also attracted corporate donation commitments of over \$6 million to AARP Foundation for its hunger programs and additional significant corporate donations are anticipated as the race season progresses. Further, 100 percent of AARP revenues from sales of Drive to End Hunger car merchandise, such as T-shirts, caps, and toy cars, are donated to the Foundation's work on hunger. Finally, according to an Associated Press story on March 18, 2011, a study by Joyce Julius & Associates shows the sponsorship has "totaled nearly \$7.6 million of in-broadcast exposure value for new sponsor Drive to End Hunger" after just two of 22 scheduled races at the time.

Overall, we believe that the impact of AARP's sponsorship of the Drive to End Hunger car in bringing attention as well as tangible contributions to the cause will play an essential role in the Foundation's multifaceted effort to find a long-term solution to ending senior hunger in America.

- 8. You claimed that AARP does not collect Medigap insurance premiums from seniors and that AARP does not receive royalty payments for the sale of AARP-related Medigap insurance plans. Your claim is inconsistent with AARP's most recent Notes to Consolidated Financial Statements which state that the AARP Insurance plan, "a grantor trust, holds group policies, and maintains depository accounts to initially collect insurance premiums received from participating members. In accordance with the agreement referenced above [contracts with UnitedHealth Group, Metropolitan Life Insurance Company, Genworth Life Insurance Company, and Aetna Life Insurance Company], collections are remitted to third party insurance carriers within contractually specified periods of time, net of the contractual royalty payments that are due to AARP, Inc., which are reported as royalties in the consolidated statement of activities." (emphasis added)**

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Additionally, please see the enclosure showing AARP and UnitedHealth Group's Medigap insurance filing with the Rhode Island Department of Business Regulation's Division of Insurance Regulation in 2010. This filing shows that 4.95 percent of the Medigap premiums are classified in the filing as "royalties." These royalties are presumably being paid to AARP.

Given these facts, we would like to provide you with the opportunity to correct what appears to be a clear misstatement. Which entity collects premiums directly from Medicare beneficiaries for AARP-branded Medigap insurance policies? Further, what percentage of this premium does AARP retain before sending the remainder to UnitedHealth Group in 2011? What percentage of premium payments will AARP retain in each of the remaining years on AARP's current Medigap contract with United?

Thank you for the opportunity to clarify my statement at the hearing. As we explained on page 3 of our December 18, 2009 letter to Representatives Herger, Brown-Waite, and Reichert:

[T]he AARP Trust collects premiums, and remits them to the applicable insurance company, for the following products carrying the AARP name: (1) the Medicare Supplement and under-65 insurance and indemnity plans offered by United HealthCare Corporation, (2) the under-65 insurance products from Aetna Life Insurance Company, and (3) the long term care insurance products from Genworth Life Insurance Company and Metropolitan Life Insurance Company. The insurers direct the Trust to pay the royalty owed by the insurers to AARP, and certain deductions are made to pay expenses incurred by the Trust.

The email from Ray Shepherd to Dan Elling and Jill Schmalz, dated June 16, 2010, and the email from Ray Shepherd to Dan Elling, dated April 5, 2011 (sent shortly after the hearing to clarify the response on this issue) convey similar information, which is the correct explanation of how the premiums are handled.

- 9. With regard to the interest AARP earns by keeping Medicare beneficiaries' insurance premiums, you stated that the premium revenue is held in a "simple interest-bearing account." AARP's outside counsel clarified after the hearing that the Medicare beneficiaries' premium money is also invested by AARP in other ways, including securities.**

Please provide a detailed account of what your outside counsel meant by "other investments" when he wrote "the Trust assets are held not only in an interest bearing account, but they are also invested in securities and other investments." Also, provide the total premium dollar amount that the AARP Insurance Plan and AARP, Inc. have invested since 2002; what percentage of that annual total was invested in securities and what remained in an interest bearing account; and specify the industry sectors in which these "other investments" are made.

Thank you for the opportunity to clarify my response to your questions at the hearing. As we have explained in prior responses, "[w]hile within the Trust, [premiums] are invested, and income earned

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from the investment of premiums while on deposit with the Trust is paid to AARP and used to support AARP's mission and operation (and AARP bears the risk of any loss that may result from the investment)." (Email from Ray Shepherd to Dan Elling and Jill Schmalz, June 16, 2010).

We appreciate the opportunity to supplement and further explain how the Trust invests the premiums. The Trust assets are invested, pursuant to the Trust investment policy, in readily marketable securities, cash equivalents, fixed income, and equities as appropriate to the cash flow requirements of the Trust. Funds that will be needed to pay premiums near term are usually invested in cash equivalents and short term fixed income investments; funds that are expected to be held over longer periods are typically invested in government, municipal, and corporate debt, large cap equities, small cap equities, and international equities. The investment policy provides that the investments are to be at all times broadly diversified both according to economic sector and industry; thus, no particular sector or industry is targeted. The percentages held in any of these investments vary depending on the cash flow needs of the Trust, which can change from time to time.

10. When asked if AARP Services has any role whatsoever in setting insurance premiums or rates, you stated, "The answer is no."

However, AARP's outside counsel informed staff after the hearing that, in fact, AARP Services, Inc. (ASI) does "review" premium rates and may negotiate with the insurance carriers so that such rates are deemed "reasonable" by AARP standards. Once ASI and AARP's insurance partners come to an agreement, AARP's Insurance Plan must approve the premium rate. If approved, the rate is forwarded to the state insurance commissioners.

We would like to give you the opportunity to answer the question again. What role does AARP Services have in setting the premiums for AARP-branded insurance products? Is AARP's Insurance Plan's Board of Directors responsible for approving insurance premiums for AARP-branded insurance products? If so, which products?

Thank you for the opportunity to clarify my comments at the hearing and to supplement our prior responses. As we explained in our correspondence of April 5, 2011, although ASI does not set the premiums for AARP-branded health insurance products, it does review the premiums proposed by the carriers as part of its responsibility for quality control over the products. In order for ASI to be satisfied about the reasonableness of the rates, consistent with its quality assurance responsibilities, there may be a fair amount of back and forth discussions with the carrier. This includes ASI prompting the carrier to keep its expenses low and thereby keep the premiums reasonable for AARP members and insureds.

Once ASI is satisfied with the rates, the AARP Insurance Trust reviews and approves the final recommendation for the average rate increases. The carriers then submit the rates to the state insurance commissions for final approval. ASI and the Trust perform this review for the AARP-branded long term care insurance, health insurance for persons aged 50-64, and Medicare Supplement insurance.

- 11. When questioned about which AARP entity oversees its insurance contracts, Mr. Hammond responded that "they are not overseen by the [AARP, Inc.] board, they are overseen by [AARP Services, Inc.], which is our for-profit. They manage and oversee the contracts." It is important to note that in 2010, two of AARP, Inc.'s Directors also served on the board of AARP Services.**

Based upon the information received from AARP's outside counsel described above, including the fact that the AARP Insurance Plan Board must approve the contract and premiums and that this group was entirely comprised of AARP, Inc. directors in 2010, on what is the basis for your assertion that the AARP, Inc. board does not oversee the contract with UnitedHealth Group?

Thank you for the opportunity to clarify Mr. Hammond's statement. AARP retains AARP Services, Inc. (ASI) to perform quality control over its member benefit insurance programs, including the AARP-branded programs offered by United. The ASI board is responsible for ensuring high performance by ASI staff. In addition, AARP has several methods of overseeing the performance of ASI, including staff oversight of ASI's performance under AARP's contracts with ASI, representation on the ASI board, oversight by the AARP Insurance Trust, and final approval of new products by the full AARP board. However, consistent with Mr. Hammond's statement at the hearing, the primary responsibility for the oversight of the member benefit programs rests with ASI.

- 12. Mr. Hammond claimed there are "basically three different boards involved in the AARP organization." Mr. Hammond mentioned the boards of AARP, Inc., AARP Services, Inc., and the AARP Foundation. However, Mr. Hammond failed to recall the AARP Insurance Plan board, which processed \$6.8 billion in insurance premiums in 2009 and claimed seven AARP, Inc. Directors as its entire board in 2010. When asked if the three boards identified by Mr. Hammond are located in the same office, Mr. Hammond responded, "They have three different offices. They meet at three different spots."**

However, AARP, Inc. and the AARP Foundation both list 601 E Street, N.W., Washington, DC 20049 as its address. Do you stand by Mr. Hammond's claim that AARP, Inc. and the AARP Foundation have different offices?

Yes, we stand by Mr. Hammond's statement. The AARP Foundation owns its own offices at 601 E Street. AARP owns its own offices in the same building. The AARP board meets in the AARP board room located on the tenth floor of 601 E Street while the AARP Foundation board meets in the Foundation board room located within its own space on the fourth floor.

Regarding the Insurance Trust trustees, the AARP Insurance Trust holds group insurance policies on behalf of AARP members and insureds; it was created in 1958 for this purpose as a result of the rules around group insurance in place at the time. As a grantor trust, the Trust is essentially a part of AARP. As such, as you correctly note, its board of trustees is entirely composed of AARP board members, similar to an AARP board committee. AARP's governance structure is designed to ensure that the mission of AARP is well represented throughout all related entities. This is accomplished, in part, through representation on the various boards.

- 13. You were asked twice, by two different members, whether AARP would commit to forgoing any Exchange insurance product-related revenue, whether by royalty commission, or otherwise, beginning in 2014. You failed to answer the question both times it was asked. We would like you to answer this very simple question:**

Will AARP commit to not endorsing or selling insurance in the government-run Exchanges? Will AARP decline any royalty, commission payments, licensing fees, or revenue from any insurance company that is related to an insurance product offered in the Exchange?

Since its founding in 1958, AARP has sought to ensure that the people it serves, Americans age 50+, have access to affordable health care. The new health care legislation should afford improved access to health care for those we serve, through, for example, the Exchanges, the elimination of pre-existing condition exclusions, the closing of the "doughnut hole," and free preventive benefits. That is the reason we supported the legislation. However, the health care landscape will be changing dramatically as the legislation is phased in, and we cannot know today whether the needs of those we serve will be met by the marketplace. It would be contrary to our mission to state today that no matter what happens in the future, AARP will never be needed to help make available an insurance program to ensure that older Americans have access to affordable health care that the marketplace is not otherwise adequately providing.

- 14. When asked why the AARP, Inc.'s cash and in-kind contributions have not kept pace with AARP's royalty revenues growth and how this comports with AARP's tax-exempt status, you simply responded that "All of our money does go to our mission."**

Please provide a detailed and specific accounting – by program and dollar amount – of how AARP's \$1.4 billion in total operating revenue was spent in 2009 to further AARP's mission. As part of that, please indicate how AARP spent the more than \$600 million of royalty revenues it collected in 2009, derived primarily from insurance companies, that were not provided to the AARP Foundation or AARP's Legal Counsel for the Elderly. In addition to specific programmatic spending, please provide an explanation of how the activity is related to AARP's mission. Please subtract any taxpayer-funded grant money from your calculations of how AARP spent its revenue in 2009.

As a 501(c)(4) social welfare organization, AARP carries out its tax-exempt mission primarily through its own social impact activities, including community services, education, and advocacy, not through support of its charitable affiliates. The AARP Foundation and Legal Counsel for the Elderly are expected to be self-sustaining through charitable fundraising to the extent possible, although AARP provides in-kind services, such as human resources, accounting, and information technology, to both affiliates along with financial contributions. Below is a chart showing AARP's consolidated expenditures in millions by program and dollar amount for 2009.

Community Benefits	254
Publications, Communications & Information	245

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Member Service Activities	169
Advocacy, Legislation & Research	122
Human Resources, Financial Management & Operations	163
Member Acquisition	81
Pension & other post-retirement adjustments	(13)
Total	<u>\$1,021</u>

The amount shown for community benefits includes a total of \$97 million in federal grant-funded programs including housing counseling assistance, aging programs, tax assistance, and job training.

- 15. When asked how many millions of dollars AARP receives from its Medigap insurance business, you responded that, "We will provide any of your asks that we can – that we have sole control over." As you have complete information about how much money AARP receives from its insurance business, please indicate how much money AARP has been or will be paid by UnitedHealth Group, in each year of its current contract, in direct royalty payments from the sale of AARP-branded Medigap insurance policies.**

Information about the amount of the royalty payments is proprietary. In order to provide the best prices and value for those we serve, we cannot publicly disclose the details of arrangements we have agreed to with different providers because that affects the ability to negotiate on behalf of our members and others who choose products that carry the AARP name as best meeting their specific needs. Nonetheless, AARP is prepared to disclose the information to the Committee if the Committee guarantees appropriate protections that are necessary for us to be able to fulfill our mission.

* * *

Thank you for the opportunity to provide the Committee with additional information and to clarify what we have previously provided to the Committee in writing and in our testimony.

Sincerely,



Addison Barry Rand

Attachment